

LAND RENTAL ARRANGEMENTS

FOR

MINNESOTA

- 1991 -

- Cash Rent
- Flexible Cash Rent
- Crop Share Rent
- Custom Farming
- Hay and Pasture Rent
- Written Leases/Special Provisions

by

Kenneth H. Thomas
Extension Economist in Farm Management
Perry A. Fales and Mervin L. Freeman
Area Extension Agents - Farm Management

MINNESOTA EXTENSION SERVICE
UNIVERSITY OF MINNESOTA
ST. PAUL, MN 55108

This archival publication may not reflect current scientific knowledge or recommendations.
Current information available from University of Minnesota Extension: <http://www.extension.umn.edu>.

CASH RENTS FOR 1991

The Market Approach

You are not going to rent much crop land if you are bidding considerably below the going cash rent in your area. Figure 1 on page 2 provides a map of estimated average cash rents paid for cropland in Minnesota in 1989, as reported in a survey conducted in the fall of 1989. The following is a brief summary of expected changes in cash rents from 1990 to 1991, along with comments as to how one might adjust the rents shown in figure 1 for changes that have occurred since 1989. The 1991 estimated changes represent the observations of selected Professional Farm Managers and Extension Area Farm Management Agents, as of late August, 1990. Because of uncertainties relative to future short run costs and prices, these estimates should be viewed as first impressions at best.

Expected Rents For Southern Minnesota

Since cash rents in Southern Minnesota went up about 6-8 percent from 1989 to 1990 and are expected to be steady to up slightly in 1991, one could add about 10 percent to the rental amounts shown in figure 1 as an approximation of rents in that area this coming year. Largest increases are projected for the Southwestern counties, with rents going up 5-8 percent. In South-Central Minnesota rents are expected to increase about 5 percent, while in the Southeast rents are expected to be firm to up 5 percent. This is the opposite regional pattern of last year (1990), reflecting the improved crop conditions in the Southwest.

Expected Rents For Central Minnesota

Cash rents in this region for 1990 were steady at best for most of the area, due in large part to adverse moisture conditions of recent years. However, some increase was reported in the Southwestern parts of the region due in part to stiff competition for acreages by sugar beet growers. Rents for 1991 on non-irrigated land in the East Central area are expected to be up at least \$5 to \$10 per acre, due to improved soil moisture conditions. In the West and North Central portions of the area, rents are expected to be steady to up slightly, depending on moisture conditions, crops grown, etc. Thus, some modest increase in rents from those shown in figure 1 can be anticipated for this area.

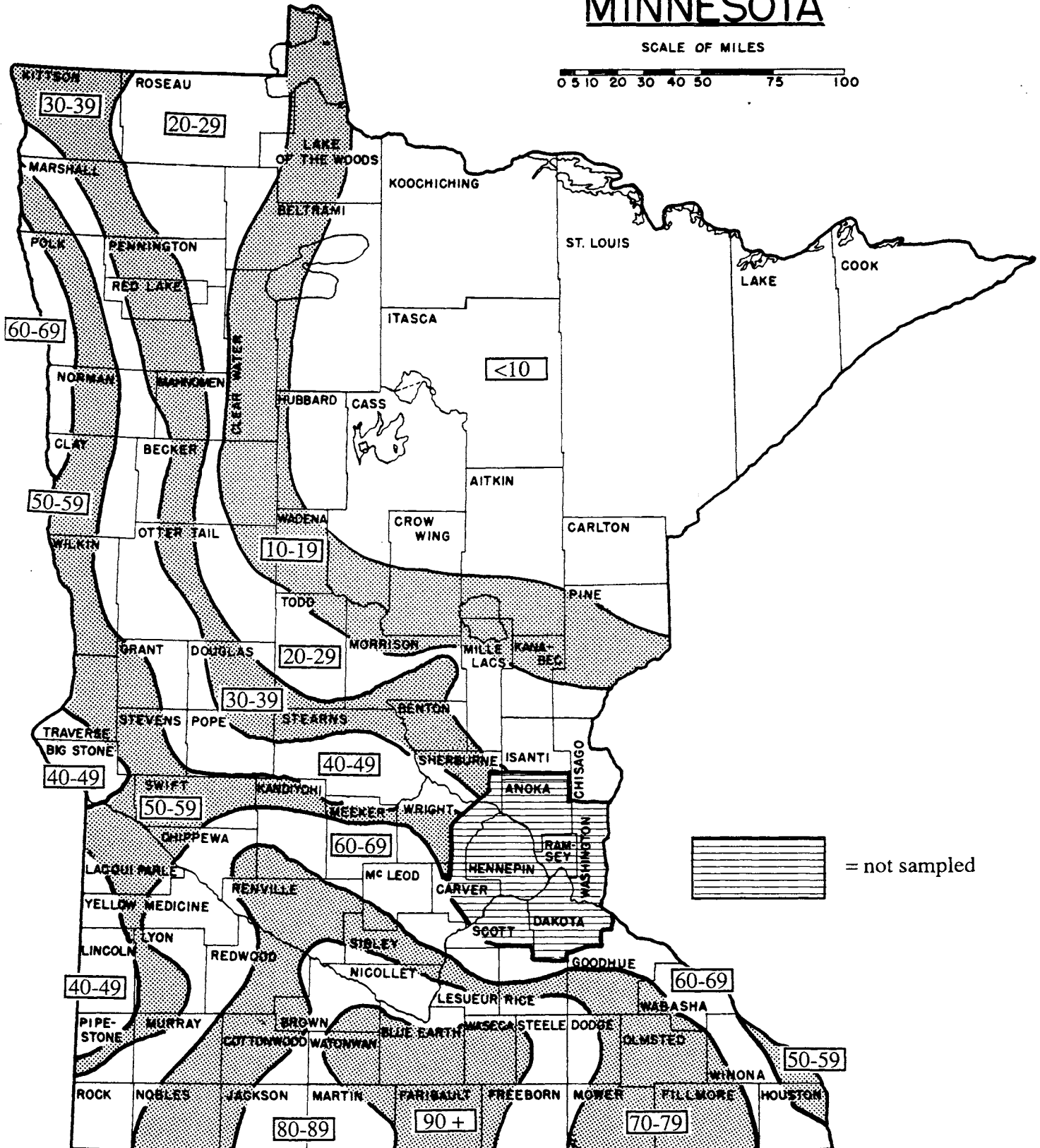
Expected Rents For West/Northwest Minnesota

In the Central and Northern portions of the valley and ridge country, there was little change in rents from 1989 to 1990 due to adverse crop conditions. In the valley, some increase in sugar beet acreage has tended to put upward pressure on land values and rents. However, spotty rainfall and resultant crop yield variations makes for a mixed bag as regards expectations for rents for 1991. Thus, on average rents will likely be steady to up slightly. Growing conditions in the southern valley area have generally been much better. As a result cash rents are expected to be up 8-10% for 1991, though there are pockets where rents will only be up slightly. Coupled with the 1989-90 increase of about 5 percent, average rents for this lower valley area will likely be up at least 10 percent over 1989 levels in 1991.

MINNESOTA

SCALE OF MILES

0 5 10 20 30 40 50 75 100



Source: Minnesota's Cash Rental Market: 1989. FM665, Minnesota Extension Service, University of Minnesota, February, 1990

Figure 1 - Generalized Cash Rents, Minnesota, 1989

OTHER APPROACHES FOR DETERMINING A FAIR CASH RENT

Figure 1 should prove useful for getting you in the "ball park" regarding a fair cash rent for a piece of land in your area. However, each parcel of land has its own rental value because of its productivity, its location, etc. and each tenant or landowner has his/her own expectations as to yields, prices and even costs. Therefore, you will need to do some pencil pushing for your own particular situation. The following procedures should prove helpful for both landowners and tenants as they try to determine what would be a desirable/affordable/fair cash rent for a given farm or parcel.

Landowner's Desired Cash Return Approach

Landowners can use the following procedure for estimating the rent required to guarantee a desired return on investment and to also cover other cash expenses. The acreage amount shown at line (2) should be in tillable acres to be comparable to rents calculated in worksheet 1, page 10.

	<u>Example</u>	<u>Your Farm</u>
Per acre value of crop acres (1)	\$900	_____
Total crop acres (2)	140	_____
Total value of cropland (1 x 2) (3)	\$126,000	_____
Desired return on investment (6% - 8%) . . (4)	\$8,820	_____
Real estate taxes (5)	\$1,500	_____
Insurance (fire, wind, liability) (6)	\$450	_____
Other cash costs - repairs, etc. (7)	_____	_____
Total desired cash return (4 + 5 + 6 + 7) . (8)	\$10,770	_____
Desired cash rent/acre (8 ÷ 2) (9)	\$77	_____

Under current conditions, we suggest using a real interest charge (interest rate - expected inflation rate) of 6% to 8% as a desired return on investment charge. Adding other cash expenses associated with the property will bring the desired cash rent to 8% to 10% of the fair market value of the property. (In our example it works out to 8.6%.)

In addition, if you have certain outbuildings such as grain storage and machine storage, they are often in good demand. Old, smaller, high labor requiring grain storage may rent for 1 to 1 1/2 cents per bushel per month, with a 6 to 10 cent minimum per year. New, larger, labor efficient, elevator type storage may rent for 2 to 2 1/2 cents per bushel per month, with a 10 to 14 cent minimum per year. Generally, good farm grain storage should be priced 1/2 to 3/4 cents below local elevator charges because of losses, extra handling, and costs of keeping grain in condition. Well designed machine storage may rent for 20 to 25 cents per square foot per year.

Farm Operator's "How Much Cash Rent Can I Afford To Pay?" Approach

On page 10, we have provided farm operators with a worksheet for determining how much cash rent they can afford to pay for a given piece of property while still covering selected costs and with possible variations in crop income. In estimating overhead charges, remember that over the long term you will need to provide for the cost of machinery replacement, payment of a reasonable wage for your labor and management and risk.

FLEXIBLE CASH LEASE ARRANGEMENTS

With the recent wide swings in crop yields, prices and rents, there has been increased interest in alternative arrangements to cash rent. However, many farm operators and landowners do not want to become involved in the complexities of a crop share arrangement. As a result, there has been some increased interest in flexible cash lease arrangements.

Flexible cash rent arrangements can be set up on a price only, yield only, or a price and yield adjustment basis. These arrangements can also be set up so that the landowner receives a portion of the rent in cash in the spring and the balance being a flexible rent received at settlement time. The worksheet on pages 8 and 9 can be used to develop such an arrangement.

In considering or using the flexible rent approach keep in mind that (1) If yields tend to fluctuate in your area, stay away from a "price only" arrangement; (2) If you establish a minimum rent to be paid, you should also set a maximum; and (3) In your lease, be sure to indicate when and at what market(s) the price will be determined.

CROP SHARE RENT

Is Our Lease Fair?

Like cash rental rates, the type of crop share arrangement typically found in an area is determined largely by the productive value of land. For example, in areas where cash rents range from \$20 to \$40 per acre, the 1/3 to 2/3 share predominates. The 40/60 share is most common in \$40 to \$60 cash rent land, while the 50/50 predominates in areas with rents above \$60 per acre. The 1/3 to 2/3 arrangement predominates in the northern part of the state, while the 50/50 prevails in South Central and Southeastern Minnesota (see figure 2).

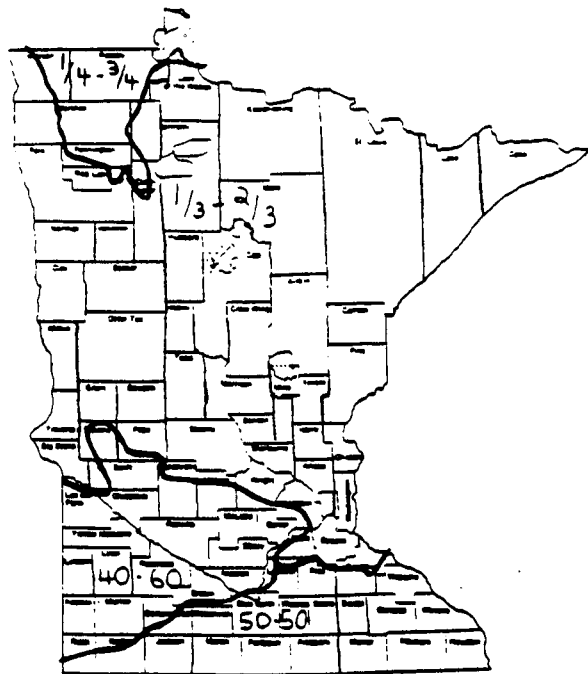


Figure 2 - Predominate Crop Share Arrangement by Areas of State
(First number shows the proportion of crop going to the landowner)

A fair crop share arrangement is one in which the landowner and tenant share the resultant crop in the same percentage as they contribute inputs of land, labor, machinery, seed, fertilizer, etc. Table 2 shows the typical sharing of operating costs in the major share rent areas of the state.

Table 2. Typical Sharing Of Costs - Landowner's Share

<u>Operating Costs</u>	<u>Type of Share Arrangement</u>		
	<u>1/3 - 2/3</u>	<u>2/5 - 3/5</u>	<u>1/2 - 1/2</u>
	--- percent paid by landowner ---		
Seed	0	0	50
Fertilizer	33	40	50
Chemicals	33	40	50
Harvest	0	0	0
Drying On Farm:			
- Fuel and electricity	33	40	50
- Overhead	0	0	0
Drying In Town	33	40	50

Hauling: Tenant hauls landlord's share once within area

Storage: Each party provides own storage

Labor: Tenant provides all labor

However, since share arrangements should vary with the relative value of the land contribution (as reflected in it's cash rental value), landowners and tenants should use the worksheet on page 11 to calculate a fair share arrangement based on major crops grown and their respective contributions.

CUSTOM FARMING

Custom farming represents another alternative for the landowner. In this arrangement, the landowner hires a custom operator(s) who agrees to perform selected machine operations (planting, harvesting, etc.) on the owner's land in exchange for a set fee or custom rate. The landowner also pays for all of the seed, fertilizer, chemicals and other cash inputs, and receives all of the crop. Typical custom farming rates in Minnesota are about \$75/acre for corn, \$65/acre for soybeans and \$45/acre for small grain.

In FM662, Custom Farming: An Alternative To Leasing, we have provided a worksheet for developing a custom farming contract. Space is provided for specifying the terms of the contract, the operations to be done on selected fields and/or for calculating the cost of the custom operation. FM662 and Fact Sheets AG-FS-3700, Minnesota Farm Custom Rate Survey For 1990, and AG-FS-2308, Minnesota Farm Machinery Economic Costs Estimates For 1990, are available at your County Extension office.

HAY AND PASTURE RENTAL

Not all of the land can be planted to row crops and small grain. Hay and pasture land are often valuable land resources as well and these do have a cash rental value.

Hayland Rents

Landowners cash renting alfalfa hay land on a one-growing-season basis have some additional operating expenses that are not found on land typically rented for row crops and small grain production. These expenses are the cost of alfalfa seed and liming of the land. As a result, hay land normally rents for 115 to 125% of comparable productive land rented for row crops and small grain production. In order to charge this cash rent per acre it is expected that there will be at least five alfalfa plants per square foot and the pH will be 6.5 or more.

An example of how this rental could be expressed on a per bale basis is as follows:

(1) Regular Cash Rent/Acre = $\$80 \times 120\% = \96 for Hayland

(2) $\frac{\text{Divide Cash Rent}}{\text{By Expected Yield}} = \frac{\$96 \text{ Acre}}{4 \text{ ton}} = \$24/\text{ton}$

(3) $\frac{\text{Divide Cash Rent/Ton}}{\text{By Bales Per Ton}} = \frac{\$24/\text{ton}}{50 \text{ bales/ton}} = 48 \text{ cents/bale}$

If the hayland is rented for just one crop, the cent per bale charge should be higher - say 55-60 cents per bale - because the renter can see the crop before deciding to rent the crop.

Pasture Charges

Pasture land cash rent is usually based on its ability to support a certain number of beef cows and/or dairy heifer replacements. The landowner provides the pasture land, some extra fence posts, and wire to repair fences. The renter provides the livestock, livestock supervision, mineral and salt, and labor to repair fences when needed.

The cash rent income a landowner should receive on a parcel of pasture land depends on that pasture's ability to carry a certain number of head of livestock from spring through the fall months. By charging by the head per month, this usually prevents (a) overstocking the pasture; (b) pasturing the land too early in the spring; and/or (c) too late in the fall. Typical charges in southern Minnesota for rent per head per month are: (1) a beef cow with calf running at her side: \$7 to \$8/head/month and (2) one dairy heifer: \$3 to \$4/head/month. Pasture rents in northern Minnesota run somewhat lower - around \$4 to \$6 per beef cow with calf running at her side/month.

PUTTING YOUR AGREEMENT IN WRITING/SPECIAL PROVISIONS

Probably less than half of the farm leases in Minnesota are ever put into writing. The only lease arrangements that are required to be put in writing are those extending for a period greater than one year. To make matters worse, Minnesota law provides little guidance as to when leases must be signed and when termination notices must be given. So-called tenancy from year to year agreements can last indefinitely and are automatically renewable. To terminate such a lease requires a 3 month written notice. However, if the tenant fails to make required rental payments, a 14-day written notice is required. Tenancy for years agreements last for a specified period. Unless there are provisions to the contrary, the lease terminates at the end of the period and does not require a termination notice.

As the farming "environment" becomes more complex and risky, the need for written leases increases. The following are some essential provisions of a lease: (1) Names and addresses of landowner and tenant, (2) Period of the agreement with provisions for renewal or cancellation of the agreement, (3) A description of the property, (4) The amount of rent to be paid and when payments are to be made, and (5) Signatures of both parties.

In addition, some desirable lease provisions would include: (1) Land use provisions such as cropping patterns and practices, so as to protect government program crop bases and conservation plans, (2) Environmental aspects relating to the use and handling of chemicals, fertilizers, etc., (3) Operation and maintenance of the farm, and (4) arbitration procedures in case of disagreements.

To insure that they will receive an agreed upon cash rental payment under a cash lease, landowners must first have their tenants sign a security interest agreement or have such an agreement as part of a written, signed lease agreement. A Landlord Lien Statement should also be proposed and signed by both parties and filed with the County Recorder. To perfect this lien, it must be filed within 30 days of when the crop is planted. This lien puts the landowner in first position relative to income from the crop and other creditors. To further protect their financial interests, landowners should require the tenant to provide a signed statement as to which grain buyers they will sell the grain to. The landowner must in turn, inform the buyers specified that a security interest is involved.

Cash lease and crop share lease forms can be obtained from your county extension office. Ask for North Central Regional publication No. 76, "Cash Farm Lease (with Flexible Lease Provisions)" and No. 77, "Crop Share or Crop Share - Cash Farm Lease."

FLEXIBLE CASH RENT APPROACHES

1. ADJUSTING FOR PRICE ONLY:

FORMULA:

$$\text{CROP} \quad \text{BASE CASH RENT} \quad \times \quad \frac{\text{ACTUAL PRICE}}{\text{EXPECT PRICE}} = \text{ADJUSTED CASH RENT}$$

EXAMPLE:

CORN	\$80	X	$\frac{\$2.05}{\$2.15}$	=	\$76.25
_____	_____	X	_____	=	_____
_____	_____	X	_____	=	_____
_____	_____	X	_____	=	_____

2. ADJUSTING FOR YIELD ONLY:

A. ALTERNATIVE #1

FORMULA:

$$\text{CROP} \quad \text{BASE CASH RENT} \quad \times \quad \frac{\text{ACTUAL YIELD}}{\text{EXPECT YIELD}} = \text{ADJUSTED CASH RENT}$$

EXAMPLE:

CORN	\$80	X	$\frac{140}{125}$	=	\$89.60
_____	_____	X	_____	=	_____
_____	_____	X	_____	=	_____
_____	_____	X	_____	=	_____

B. ALTERNATIVE #2

(FIXED AND FLEXIBLE RENT COMBINATION)

EXAMPLE: CASH RENT \$80/ACRE

<u>CROP</u>	<u>SPRING PAYMENT</u>	<u>AFTER HARVEST PAYMENT</u>
CORN	\$40	\$0.35/BUSHEL/ACRE
BEANS	\$40	\$1.00/BUSHEL/ACRE
_____	_____	_____
_____	_____	_____
_____	_____	_____

FLEXIBLE CASH RENT APPROACHES (CONTINUED)

3. ADJUSTING FOR PRICE AND YIELD:

A. ALTERNATIVE #1

FORMULA:

$$\begin{array}{c} \text{CROP} \\ \text{EXAMPLE:} \end{array} \quad \begin{array}{c} \text{BASE} \\ \text{CASH RENT} \end{array} \quad \times \quad \begin{array}{c} \text{ACTUAL PRICE} \\ \text{EXP PRICE} \end{array} \quad \times \quad \begin{array}{c} \text{ACTUAL YIELD} \\ \text{EXP. YIELD} \end{array} = \begin{array}{c} \text{ADJUSTED} \\ \text{CASH RENT} \end{array}$$

			\$2.05		140		
CORN	\$80	X	\$2.15	X	120	=	\$88.95
		X		X		=	
		X		X		=	
		X		X		=	

B. ALTERNATIVE #2

FIXED PERCENT OF CROP - ASSUMES LANDOWNER SHARES IN GOVERNMENT PROGRAM PAYMENTS

- SOUTHERN MINNESOTA
30-35% OF CROP DELIVERED TO LANDOWNER
- NORTHERN MINNESOTA
25-28% OF CROP DELIVERED TO LANDOWNER

C. ALTERNATIVE #3

(FIXED AND FLEXIBLE RENT COMBINATION)

EXAMPLE: CASH RENT = \$80

CROP	SPRING PAYMENT	AFTER HARVEST PAYMENT
CORN	\$40	15% OF CROP DELIVERED TO _____
_____	_____	_____
_____	_____	_____
_____	_____	_____

Worksheet 1. HOW MUCH CASH RENT CAN I AFFORD TO PAY ?

Projected Gross Income/Acre

	CROP ---> _____				<u>Set-Aside</u>
1. Expected Yield	_____	_____	_____	_____	XXX
2. Expected Price (cash or loan)	\$ _____	\$ _____	\$ _____	\$ _____	XXX
3. Crop Income (1 x 2)	_____	_____	_____	_____	XXX
4. Government Pay/Other Income	_____	_____	_____	_____	XXX
5. Projected Income/Acre (3 + 4)	\$ _____	\$ _____	\$ _____	\$ _____	XXX

Projected Direct Expenses/Acre

Seed	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
Fertilizer	_____	_____	_____	_____	_____
Chemicals	_____	_____	_____	_____	_____
Crop Insurance	_____	_____	_____	_____	_____
Custom Hire	_____	_____	_____	_____	_____
Fuel, Oil	_____	_____	_____	_____	_____
Drying, Utilities	_____	_____	_____	_____	_____
Repairs	_____	_____	_____	_____	_____
Seasonal Labor	_____	_____	_____	_____	_____
Operating Interest	_____	_____	_____	_____	_____
6. Projected Direct Expenses/Acre	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____

Overhead Charges/Acre

7. Operator Labor & Management	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
8. Machine Ownership	_____	_____	_____	_____	_____
9. Other Overhead	_____	_____	_____	_____	_____
10. Total Overhead Costs/Acre (7 + 8 + 9)	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
11. Total Listed Costs/Acre (6 + 10)	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
12. Return Over Listed Costs/Acre (5 - 11)	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____
13. Acres of Each Crop	_____	_____	_____	_____	_____
*14. Average Gross Income/Acre (5 x 13 + Total Acres)		\$ _____			
*15. Average Total Listed Costs/Acre [(11 x 13 + Total Acres)]		\$ _____			
*16. Average Machine Ownership/Acre [(8 x 13) + Total Acres]		\$ _____			
*17. Average Overhead Costs/Acre (10 x 13 + Total Acres)		\$ _____			

Cash Rent Per Acre You Could Afford To Pay If:

<u>Expenses/Charges Covered Were:</u>	(A) Expected Yields And Prices	(B) 10% Higher Income [A + (5 x .10)]	(C) 10% Lower Income [A - (5 x .10)]
18. All Listed Costs (14 - 15)	\$ _____	\$ _____	\$ _____
19. All Costs Except Machine Ownership (18 + 16)	\$ _____	\$ _____	\$ _____
20. Direct Costs Only (18 - 17)	\$ _____	\$ _____	\$ _____

* Multiply acreage of each crop (line 13) by income or expense line indicated and divide total by total acres involved.

Worksheet 2. DEVELOPING A FAIR CROP SHARE ARRANGEMENT

(use this worksheet to determine whether you have a fair share lease arrangement)

Crop: *Com*

Yield = 120 bu

Yield = ____ bu

	<u>Example Share</u>		<u>Your Situation</u>	
	<u>Landowner</u>	<u>Tenant</u>	<u>Landowner</u>	<u>Tenant</u>
<u>Desired Crop Share Arrangement 1/</u>	50%	50%		
<u>Non-Shared Contributions</u>				
Land - Cash Rent Equivalent	\$80	---		
Machinery (replacement and repair)	---	\$50		
Gas, Oil and Grease	---	10		
Labor and Management (plant and harvest)	0	20		
Other _____	<u>0</u>	<u>0</u>		
Total Non-Shared Contributions	\$80	\$80		
Percent Non-Shared Contribution Provided <u>1/</u>	50%	50%		
 <u>Shared Expenses - In the Desired 1/</u>				
<u>Percentage Stated Above: _____</u>				
Seed	\$12	\$12		
Fertilizer (starter, broadcast, nitrogen) <u>2/</u>	\$16	\$16		
Chemicals <u>2/</u>	\$7.50	\$7.50		
Hail Insurance	\$2.75	\$2.75		
Insecticide	\$2.50	\$2.50		
Interest, Operating Loan	\$2.80	\$2.80		
Drying	\$9.00	\$9.00		
Trucking (<i>tenant hauls one time and costs are in fixed contribution</i>)				
Hired Labor (<i>tenant provides all labor</i>)				
Storage (<i>each party stores their own</i>)				
Total Shared Expenses	\$52.55	\$52.55		
Total Shared and Non-Shared Expenses	\$132.55	\$132.55		

1/ If the percentage of non-share contributions provided by each party differs from the desired share percentage, adjustments can be made in shared expenses to bring the total shared and non-shared expenses in line with the desired share. In the example no adjustment is needed

2/ If fertilizer or chemicals are applied by a commercial operator, an agreement needs to be reached as to who will pay the application charges. In many cases, the landowner pays a share of this cost.